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Revisiting the Dynamics of Growth, Inequality and Poverty Reduction

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I. Introduction

This paper focuses on the dynamics of growth, inequality and poverty reduction. Until recently, ‘Pro-Poor Growth’ had reigned as the strategic framework of the international development community in addressing the inter-relationships among growth, inequality and poverty. The concept of ‘Pro-Poor Growth seemed to satisfy both growth enthusiasts and equity advocates by bringing both objectives into a common analytical framework and value system.

However, such a marriage of convenience did not survive eventual divorce. Nowadays, under the auspices of leading development agencies, such as the World Bank and the U.K. Department for International Development, the less demanding objective of ‘Inclusive Growth’ has supplanted ‘Pro-Poor Growth’. To date, there has been no rigorous and comprehensive explanation of the advantages of such a change. Nevertheless, ‘Pro-Poor Growth’ appears to be receding into the large dustbin of discarded development fads.

However, the practical concerns for combining the acceleration of growth with the marked reduction of both inequality and poverty retain a powerful influence. This paper attempts to analyze the reasons for the rise and fall of ‘Pro-Poor Growth’ in the hopes of laying a renewed basis for a substantive discussion of how to combine growth with equity.

II. The World Bank’s *Equity and Development* Report

A useful starting point for such an analysis is the World Bank’s 2006 *World Development Repor*t on ‘Equity and Development’. Drawing on the work of Amartya Sen, it acknowledges at the beginning of the report that equity has an intrinsic value (namely, it is an end in itself) but the whole report is thereafter concerned with the much narrower topic of demonstrating whether greater equity could promote long-term development (which is often identified with faster long-term economic growth).

For the World Bank report, equity means '*equal opportunities* [italics added] to pursue a life of one's own choosing'. Such a definition could be interpreted in various ways. What factors condition opportunities, for example? The report does not make the mistake of believing that the optimal functioning of market mechanisms is a guarantee of such opportunities. Instead, it recognizes, to its credit, that the distribution of wealth and power in a capitalist economy can cause an unequal distribution of opportunities.

One could well question the report's central thesis that equity and growth are complementary. The fact that such a relationship is entertained by the World Bank as a possibility should be regarded as a fortuitous development. There is, however, a downside to such an approach.

Fostering greater equity (such as in educational attainments) might well enhance long-term growth. But how likely is such an impact in a capitalist economy based on an unequal distribution of wealth and power? Moreover, should we uphold equity primarily on the basis of promoting growth? Should equity not be valued as an end in itself? Moreover, what if we found—for the sake of argument—that promoting equity entailed a sacrifice of growth?

One would hope that such a connection is not generally the case but we simply do not know enough empirically about this relationship to draw any firm conclusions. So it is possible that greater equity could work, in general, against growth objectives. If equity tended to lower economic growth, should we abandon equity as an objective? Hopefully not.

III. The Debate on Pro-Poor Growth

Let us first relate these issues to our discussion of 'Pro-Poor Growth'. Within this framework, we are concerned with three differentiable, if not independently important, objectives: growth, inequality reduction and poverty reduction. Recent discussions of poverty reduction have employed a complex analytical framework, the so-called

‘Poverty-Growth-Inequality Triangle’, which was popularized in a 2004 paper by Francois Bourguignon, the former Chief Economist of the World Bank (See Figure 1).

Figure 1

The analysis starts by posing the objective of poverty reduction. The main means promoting such an objective are considered to be faster growth and greater equity (including both an *initially* lower level of inequality and a reduction in inequality). ‘Pro-Poor Growth’ has sought to combine both means into one approach. But are both completely compatible?

Faster growth usually leads to *absolute* improvements for all while greater equity implies *relative* improvements for the poor (compared to the state of the non-poor). It is possible to achieve the first without the second, or the second without the first.

These simple differences lie at the heart, in fact, of the debate about the character of ‘Pro-Poor Growth’ and how to measure and evaluate it. The most well-known protagonists in this debate have been Nanak Kakwani and Martin Ravallion.

Duelling Definitions

Kakwani wrote in 2004 a seminal working paper for the International Poverty Centre on this topic entitled ‘Pro-Poor Growth: Concepts and Measurements with Country Case Studies’. In that same year, the counterpoint to Kakwani’s argument can be found in the World Bank Working Paper by Ravallion entitled ‘Pro-Poor Growth: A Primer’.

Initially, each researcher had posed a somewhat different definition of ‘Pro-Poor Growth’. Kakwani’s original position stressed the importance of identifying a *relative* improvement in the condition of the poor. For him, this improvement implied that “the incomes of the poor grow faster than those of the non-poor”.

In contrast, Ravallion’s original position emphasized that more rapid growth is ‘pro-poor’ because it is more poverty-reducing. As an example, he pointed to the extraordinary success of China in reducing extreme poverty through rapid economic growth—even though its inequality worsened.

Over time, however, the definitions of Kakwani and Ravallion have become more similar. They have tended to reach agreement on the ultimate goal of maximizing the reduction of poverty. And for this goal, they have tended to agree that both faster growth (implying *absolute* improvements) and greater equity (implying *relative* improvements) should be priorities. Lastly, how to combine the two means now appears to be primarily a pragmatic issue for both researchers.

The Mathematics of 'Pro-Poorness'

Let us examine the mathematical expressions of 'Pro-Poor Growth' that have been developed by Kakwani and Ravallion in order to determine the extent to which they differ.

In a 2003 paper, "Measuring Pro-Poor Growth", Ravallion and Chen provide the following definition of 'Pro-Poor Growth' (PPG):

The Rate of PPG = the actual rate of growth x (a constant term x (1 – an inequality index)^{a})

The mathematical form of the equation has been simplified in order to make its meaning more transparent for a general readership. The essence of the definition is that as an inequality index, such as the Gini coefficient, rises, the rate of PPG will decline relative to the actual rate of growth. Similarly, if the index falls, the rate of PPG will rise relative to the actual rate of growth.

We leave aside the incidental technical question of whether the change in inequality actually affects the poor. For instance, there could be a reduction of inequality due to the changing position of the middle class relative to that of the rich, but this would not necessarily have any direct beneficial impact on the poor.

How does the Ravallion-Chen definition compare to that of Kakwani? In Working Paper #1 of the International Poverty Centre, 2004, Kakwani, Khandker and Son provide the following definition of what they call the ‘Poverty Equivalent Growth Rate’:

The Poverty Equivalent Growth Rate = the actual growth rate x (the total poverty elasticity/poverty elasticity of growth)

The ‘Poverty Equivalent Growth Rate’ will be pro-poor if it is higher than the actual growth rate. This would depend on the definitions of elasticity, which we now must clarify. The ‘Poverty Elasticity of Growth’ signifies the percentage change in the poverty headcount relative to the percentage change in income per capita.

The ‘Total Poverty Elasticity’ in this definition combines both the ‘Poverty Elasticity of Growth’ and the ‘Poverty Elasticity of Inequality’. The latter is the percentage change in the poverty headcount relative to the percentage change in the Gini Coefficient (the measure of inequality).

Hence, if the ‘Total Poverty Elasticity’ exceeds the ‘Poverty Elasticity of Growth’, then the reduction in inequality is reducing poverty and, by definition, the Poverty Equivalent Growth Rate exceeds the actual growth rate. Once one focuses on the essence of each definition, one can understand that the two operating definitions of ‘Pro-Poor Growth’ differ only marginally. In practice, they seem to amount to the same approach.

An Annoying Complication

Both definitions incorporate concerns for growth and inequality. The objective of both, in a sense, is to maximize the ‘Total Poverty Elasticity’ (with respect to both the growth of income and changes in inequality). But there remains an annoying complication.

This complication relates to the possible interaction between faster growth and greater equity—a topic that we introduced in our discussion of the *World Development*

Report 2006. A specification of the determinants of poverty reduction probably should be fleshed out as follows:

$$\mathbf{PR} = \boldsymbol{y} + \boldsymbol{g} + \mathbf{Y_{-1}} + \mathbf{G_{-1}} + \boldsymbol{yg}$$

Where PR is Poverty Reduction, *y* is the rate of growth of income per capita, *g* the change in the Gini coefficient (or similar measure of inequality), Y_{-1} is income per capita lagged, G_{-1} is the Gini Coefficient lagged, and *yg* is the interaction between the growth rate of income per capita and the change in inequality.

Some microeconomic evidence suggests that there is a positive link between reduced inequality and faster growth but cross-country regressions are generally inconclusive on this link. In other words, the jury is still out on the question of whether the two factors have a generally complementary impact.

In order to give a more concrete illustration of these concerns, we draw on the examination by Kakwani, Khandker and Son (2004) of patterns of Poverty Equivalent Growth in Thailand in the 1990s (see Figure 2).

Figure 2

In the late 1980s/early 1990s, growth was high (about 8 per cent) in Thailand but inequality was rising. Thus, the Poverty Equivalent Growth Rate was lower than the actual growth rate. The former averaged close to 6 per cent.

Toward the mid 1990s, economic growth slowed to about 6 per cent while inequality was also dropping. Hence, the Poverty Equivalent Growth Rate was higher than the actual growth rate. The former averaged about 8 per cent.

But one might well ask whether there could have been a trade-off between growth and equity during the mid 1990s. Was it the case, for example, that growth slowed precisely because equity was increased too much?

Examining the figure, one might well ask: which period should be preferred, and on what basis? The earlier period had more inequality but higher growth while the latter period had less inequality but also lower growth.

If we use either the Kakwani or Ravallion definition of ‘Pro-Poor Growth’, on what basis do we prefer one period over the other? Do we prefer, for example, the mid 1990s because of the decrease in inequality—even though growth was falling?

Let us sharpen the contrast by drawing an artificial figure (Figure 3). Let us assume that from 1990 to 1994, the actual rate of growth was 6 per cent while the Poverty Equivalent Growth Rate was 5 per cent (because of higher inequality).

Figure 3

Let us further assume that during 1995, growth dropped sharply and that the actual rate of growth during 1996 to 2000 was 4 per cent. However, during this latter period, inequality also dropped so that the Poverty Equivalent Growth Rate remained 5 per cent.

Again, we might ask the question: which period is preferable? Growth champions might opt for the first period, perhaps because of greater gains among the non-poor due to higher overall growth. In contrast, equity advocates might opt for the second slower-growth period because of the achievement of higher equity. ‘Poverty Pragmatists’ might end up being indifferent: after all, the Poverty Equivalent Growth Rate is the same in both periods.

The underlying conceptual problem, we would argue, is that the Kakwani and Ravallion definitions of PPG have, indeed, converged towards a common pragmatism. In other words, they have chosen to mix and match both means, i.e., faster growth and greater equity, in order to maximize the impact on poverty. How exactly the impact is achieved is of secondary concern.

Once one carefully studies the two definitions of PPG and the implications of applying them, one should recognize that the Great Debate on ‘Pro-Poor Growth’ has effectively collapsed. The implication of using either definition is that growth is no longer ‘pro-poor’ or ‘anti-poor’: it is just *more or less* ‘poverty-reducing’. And this reduction of poverty could be due to either faster growth or greater equity.

The dead-end of this debate has originated, we would argue, from valuing equity primarily *instrumentally*. The motivating concern for equity has been concentrated on poverty reduction alone. Within this framework, achieving lower inequality (across the whole distribution) is merely a means, neither more nor less important than general increases in income. Greater equity (above and beyond poverty reduction) is not valued *intrinsically*.

IV. Moving Beyond Abstractions

There is another fundamental problem, we would argue, with the way that the inter-relationships among growth, inequality and poverty reduction are conceptualized in ‘modern’ discussions of these issues. The discussions start, in effect, ‘two steps removed’ from real development processes.

First, the three phenomena are treated abstractly as though they are independent, motive forces, and can interact among themselves to produce additional effects. Secondly, for regression purposes, their conceptualization is usually reduced to their statistical specification (e.g., mean income per capita, the Gini coefficient and the headcount ratio). Hence, after a while, we tend to assume that the regression specification is a perfectly adequate representation of reality.

But the growth of income per capita is equivalent to the increase in the *income-weighted* mean income per person of a population sample. In other words, the specification can be heavily influenced by the income weight of the richer members of society.

Changes in inequality are identified with changes in the Gini Index (which ranges from 0 to 1). But this index is a measure of *relative* inequality. It is not structured to record changes in *absolute* inequality, namely, absolute differences in income levels. We will return to this point later in this paper.

Lastly, poverty reduction is identified with raising household per capita income or expenditures above a *socially designated* monetary poverty line. But where this line is drawn is fundamentally a matter of social choice or convention.

The major point that we want to develop in relation to these issues is that all three of the above outcomes (growth, inequality and poverty) represent different dimensions (or conceptualizations) of the same underlying process of the expansion of total output and its corresponding flow to various factors of production within multiple sectors of the economy.

V. The Kuznets Contribution

Let us step back historically and revisit the work of Simon Kuznets, one of the most well-known representatives of classic development economics, post World War II, to see whether we can identify and pursue a qualitatively new path of analysis and conceptualization with regard to growth, inequality and poverty reduction.

Much of the analysis of inequality by post-war development economists was decisively influenced by the utilisation of a dualistic framework. This approach assumed a large subsistence, stagnant agricultural sector containing surplus labour existing side by side with a small, growing and dynamic capitalist urban industrial sector characterized by rising productivity. The outlines of this framework are often attributed to Arthur Lewis (see Lewis 1954).

At this juncture, an important point to emphasize is that this analytical framework has provided richer and more concrete empirical results than those provided by much of the modern abstract, regression-driven analysis of inequality.

Drawing on this tradition, Kuznets was concerned primarily with *longer-term secular* trends in income levels and disparities. He concentrated much of his research on the characteristics of what he called modern socially ‘disruptive’ economic growth. His limited research on inequality was essentially an outgrowth of this focus.

His well-known ‘Inverted-U Hypothesis’ was designed to provide a general framework for understanding patterns of inequality as modern economic growth induced substantial increases in the average incomes of nations (Kuznets 1955). His hypothesis was based on two simple initial assumptions: 1) a significant income gap exists between rural agriculture and urban industry and 2) there is greater intra-sectoral inequality within urban industry than within rural agriculture.

As the labour force migrates from labour-surplus agriculture to labour-demanding industry, the weight of the sector with greater inequality rises while the gap between the two sectors is also likely to rise. As a consequence, overall inequality at first rises, than stabilizes for some time, and eventually falls (Figure 4). In other words, its pattern looks like an inverted U. Kuznets basically accepted Lewis’ assumption that for a while a large pool of surplus labour, originating in agriculture, tends to hold down urban wages relative to increases in labour productivity in industry.

Figure 4

Even though Kuznets’ Inverted-U Hypothesis has exerted continuous fascination for researchers since the 1950s (with some even lauding it as an ‘iron-law’ empirical regularity), Kuznets’ own empirical work was basically restricted to observing the historical experience of three developed countries, the US, England and Germany. As he claimed himself, his results were “5% empirical information, 95% speculation”.

VI. Why Did Inequality Eventually Fall?

Although his analysis provides a plausible explanation of why inequality might, at first, increase, as labour migrates from agriculture to industry, his explanation for the eventual fall of inequality appears less compelling. In his 1955 paper, he gives, for example, two possible explanations for the eventual fall.

One is that ‘the dynamism of a growing and free economic society’ constantly creates new industries and new competing capitalists. One can imagine, for instance, the rise of Bill Gates’ wealth and influence compared to those of the long-established Rockefeller family. But why this would necessarily lower overall inequality is open to question.

The second explanation that Kuznets provides—which is more convincing—is that inequality eventually diminished because of the rising economic and political bargaining power of the lower-income groups (i.e., the working classes) after the initial wrenching dislocation of the Industrial Revolution, and after they had become more established urban residents and more organised.

This important dimension is obviously missing in much of the modern analysis of inequality and growth. Since such analysis is focused on poverty reduction, it is usually assumed that ‘the poor’ are not capable of becoming a potent political force. However, several economic historians have followed this line of enquiry in trying to explain the eventual decline of inequality in some of the developed economies.

For instance, Justman and Gradstein (1999) have investigated the impact of the Industrial Revolution in the United Kingdom on the political evolution of urban workers. They find that the Industrial Revolution triggered a process of ‘democratisation’ that shifted power from the elite few to the many, mainly urban workers, who through the course of industrialisation had managed to secure modest economic resources that elevated them above poverty levels.

This economic advancement led, in turn, to increased political activity that prompted the Reform Act of 1867, which extended the right to vote to at least the upper levels of the working class. Such a movement also led to a shift in the ‘distributional bias’ of public policies more towards the working class. This entailed a number of specific reforms: more progressive taxes and transfers; increased public investment in education; legalisation of trade unions; old-age pensions and some social insurance for the ill; and public provision of services, such as roads, water and public transport.

It is important to recognize such political factors in explaining changes in inequality, especially since they are often now neglected. For Kuznets, however, such social and political changes were conditioned by deeper structural transformations. The Kuznets analysis of trends in inequality starts from the premise that a rapid rise in labour productivity occasions acceleration in the 'Structural Transformation' of the economy and this upheaval brings in its train an ensuing 'Social Transformation'.

It is this Social Transformation that is the basis for a trend break in the income distribution of a country. Otherwise, the distribution could remain relatively stable over a long period of time.

It is important to also note that, for Kuznets, modern economic development implies dramatic changes in 1) the distribution of resources and productivities across economic sectors and 2) the distribution of factor endowments and factor returns across economic agents. Such transformations underlie any significant secular changes in both growth and distribution.

There is certainly room for policy interventions in determining the distributional impact of growth but the implication of Kuznets' analysis is that such interventions would need to modify, somehow, the structural features of the economy. For instance, they would need to significantly influence such factors as technological development, relative productivities across sectors, the distributional bias of public finances and the underlying distribution of assets and resources.

Instead of having a ready explanation for the projected fall in inequality that he posited from his two-sector model, Kuznets was, in fact, initially puzzled by it. Following the conventional assumptions of his day, he expected the concentration of savings among the rich to have a cumulative regressive effect on wealth and income inequality.

Kuznets' views are emblematic of post-war Development Economics, which was generally 'equity-insensitive'. The prevailing view was that development hinges on a rise in labour productivity and such a rise is dependent on accelerated capital accumulation. Such accumulation is not possible, however, without a larger national savings ratio. Since high-income groups save a larger proportion of their incomes, inequality of the distribution of income is a necessary condition for rapid capitalist growth.

VII. Redistribution with Growth

Growth was indeed rapid in the 1960s and early 1970s but inequality remained high and poverty remained deep and pervasive. In light of such problems, eventually redistribution had to be put back much more explicitly on the development agenda.

An influential 1974 book, *Redistribution with Growth*, produced by collaboration between the World Bank and the Institute for Development Studies, epitomized the major shift at that time towards a heightened concern for equity. In this respect, it reminds us of the recent emphasis on equity in the 2000s, at least in the form of poverty reduction, and poverty reduction strategies.

The authors of this book were opposed to the strategy of maximizing the growth of Gross National Product, which had prevailed through the 1960s and early 1970s. They argued that since the richest 40 per cent of the population usually accounted for three-quarters of total income, the weight of their income would basically determine the rate of economic growth. In response, they proposed an adjusted measure of growth that accorded greater weight to the income of the poorer deciles of the population.

The authors also noted that a strategy focused on maximizing growth would invariably entail a series of pro-rich policy measures. These would include lower income and corporate taxes, wage-restraint policies and monetary policies targeted at low inflation. Such policies have, in fact, become the norm in recent years, but have often been adorned with claims that they would be 'pro-poor' in their impact.

The book also highlights for us the limitations on the redistributive agenda at that time. For example, while it advocated a redistribution of investment, it refrained from advocating a redistribution of assets. Its general policy message was to advocate altering *over time* the underlying pattern of concentration of both physical and human capital. This approach was encapsulated in the call to 'Invest in the Poor'. For this purpose, it stressed the reallocation of public investment.

While it acknowledged that such a reallocation might occasion some short-term sacrifice of growth, it affirmed that the longer-term 'trickling-up' benefits of such a reallocation would outweigh any short-term disadvantages. However, it did not advocate any redistribution of the *current* stock of wealth, primarily because of the danger of the political opposition of the rich.

Instead, it favoured concentrating on reallocation of investment over time on the basis of maintaining a rapidly growing economy. So redistribution followed growth, in effect, and was restrained from colliding with its supposed mainsprings.

VIII. 'Pro-Poor' Versus 'Inclusive' Growth

It appears that since 2008 we have begun entering a new period of development thinking, one that is less preoccupied with equity concerns, and more inclined to stress the importance of growth. This preoccupation has been reinforced, no doubt, by the collapse of growth in developed economies and the spread of global financial crisis and recession.

Well before the global crisis hit, some prominent development agencies, such as the World Bank and the U.K. Department for International Development, were scuttling the strategy of 'Pro-Poor Growth' in favour of what they called 'Inclusive Growth'. It is still debatable whether this change represents a progressive or regressive development. Many questions remain. For example, how 'inclusive' is 'Inclusive Growth', and what does this term mean? How equitable is it? And for that matter, how equitable is 'Pro-Poor Growth'?

In order to try to address these questions, we set up an artificial experiment. Let us choose a country, such as Brazil or Colombia, in which inequality is high. In both of these countries, the income share of the richest 10 per cent of the population is about five times higher than that of the poorest 40 per cent. So the level of income *per person* of the richest 10 per cent is 20 times higher than that of the poorest 40 per cent (who have four times more people). Hence, if the income per person of the bottom 40 per cent were £100, the income level of the richest 10 per cent would be £2000. Refer to Table 1. The absolute income gap between the two is thus £1900.

Table 1

We examine the bottom 40 per cent of the population in order to be 'inclusive'. This share could easily include some of the non-poor as well as the poor. We could use the bottom 50 per cent or 60 per cent of the population but our basic conclusions would not be altered. The thrust of our conclusions would also not be significantly changed if we used a country with lower levels of inequality than Brazil or Colombia,

We have to attach some kind of meaning to 'inclusive' that differs from that of 'pro-poor'. So we assume that the poor do not benefit 'disproportionately' from growth, otherwise we would have to call the pattern of growth 'pro-poor'. Hence, for our experiment, we assume that everyone's income increases at least at the same rate (implying that everyone is 'included' in growth on a supposedly equal basis). This is conventionally considered to be 'distribution-neutral' growth.

The Table shows us that whether we assume five per cent growth for all or 10 per cent growth for all, the absolute income gap between the richest 10 per cent and the poorest 40 per cent widens after one year (see the last column), and widens further thereafter.

In fact, even if we assume 'Pro-Poor Growth', namely, that the growth of the income per person of the richest tenth is only five per cent while that of the poorest 40 per cent is 10 per cent, the absolute income gap would still widen.

Hence, when we attempt to measure inequality in 'absolute' terms, namely, in actual differences in income, we find that even 'Pro-Poor Growth' might not be significantly redistributive. Moreover, in absolute terms, 'Inclusive Growth' could have a regressive impact, even though in relative terms, it could be considered 'distribution-neutral'.

IX. Some Concluding Remarks

What are some of the general implications that can be drawn from this paper? The first major implication is methodological. Based on evaluating recent discussions of growth, inequality and poverty reduction and reviewing the early analytical contributions of Simon Kuznets, this paper has argued that we need to shift applied research away from abstract regression analysis to a more sophisticated and concrete focus on the structural causes of the secular trends in both inequality and growth—and, by implication, trends in poverty.

A second major implication, which relates to the last section on 'Pro-Poor' versus 'Inclusive' Growth is that there can be considerable room for redistribution of income without significantly altering the basic structure of an inequitable distribution.

A third implication that could be drawn from the last section is that we need to concentrate more on issues of absolute inequality. While measures of relative inequality remain important, this concept of inequality is, in fact, a more abstract and problematic concept for most people.

A fourth implication is that while the framework of 'Inclusive Growth' might well serve a useful purpose, such as broadening the concern for greater equity to include segments of the non-poor, those who have been 'excluded' from the fruits of growth would still need to 'disproportionately' benefit, for an extended period, from any growth process in order for the term to have any credible meaning. Hence, instead of being qualitatively different from 'Pro-Poor Growth' in this respect, 'Inclusive Growth' should imply an effort to extend disproportionate benefits to a wider share of the population.

However, a fifth implication of this paper is that tying redistributive policies too tightly to growth policies, or equity objectives too closely to growth objectives, is a major mistake—despite the laudable effort by many in the international development community to use 'Pro-Poor Growth' to counter the hegemonic growth-centred approach to development. Note that even under the rubric of 'Pro-Poor Growth', the adjective 'pro-poor' still modifies the noun 'growth', not development in general.

A corollary is that greater equity should be valued as an end in itself—not primarily as a means that could advance the cause of growth. Moreover, redistributive policies need to be addressed in their own right. Thus, the title of the seminal 1974 book mentioned earlier in this paper, 'Redistribution with Growth', should imply that redistribution is an independently important area of concern, which either precedes or runs in parallel with any concern for growth.

Furthermore, a sixth implication of this paper is that meaningful redistribution will have to involve a redistribution of the underlying allocation of physical and human capital. This paper does not enter the debate on whether such a redistribution should imply reallocating the current stock of productive wealth or reallocating over time investments in such wealth. Either approach would lead, in any case, to a significantly more radical approach than is currently being followed.

In this paper we have noted that political costs (namely, losses for the rich) are usually cited as a rationale for avoiding redistributive policies. We would emphasize, in stark contrast, that the majority of the working population need to mobilize themselves politically so that the 'political costs' of <u>not</u> undertaking redistribution become prohibitively high.

This point, which is a seventh implication of this paper, relates to the earlier discussion on Kuznets' recognition (which has generally been neglected by the recent literature on inequality) that the rising economic and political power of the lower-income groups during industrialization eventually helped to lower inequality in developed countries such as the U.K, US and Germany.

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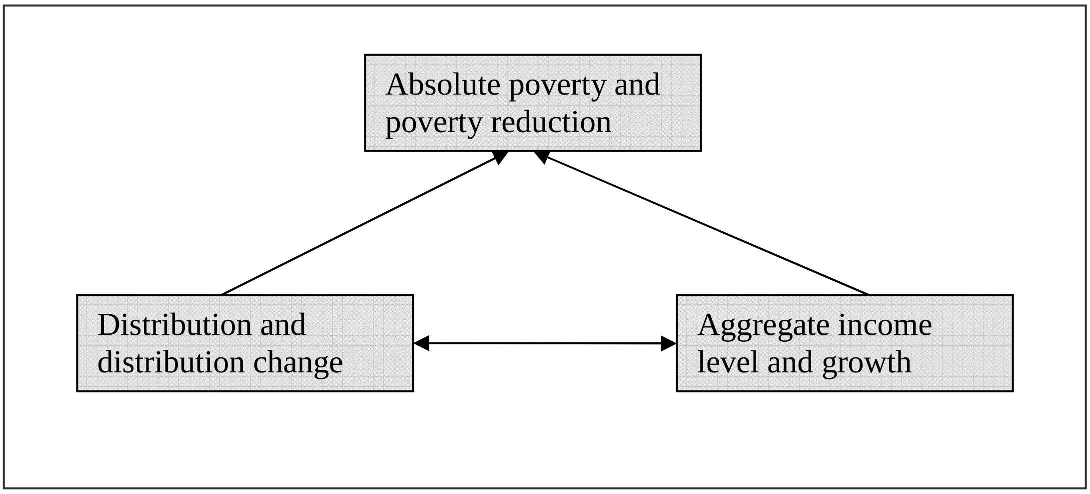
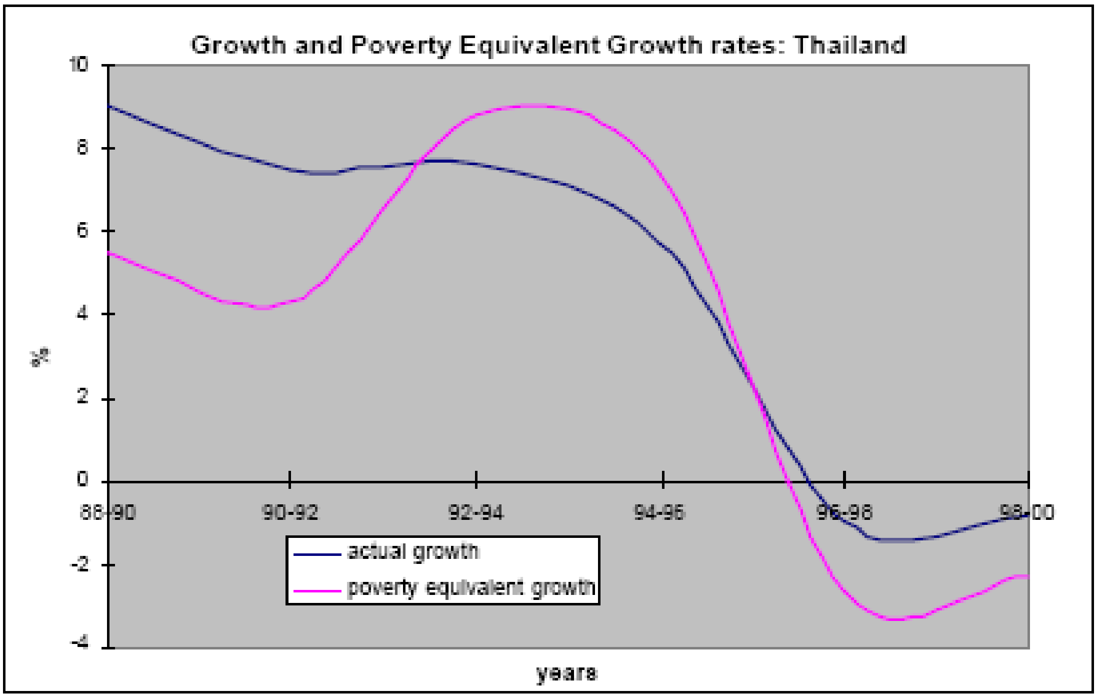
Figures

Figure 1. The 'Poverty-Growth-Inequality Triangle'



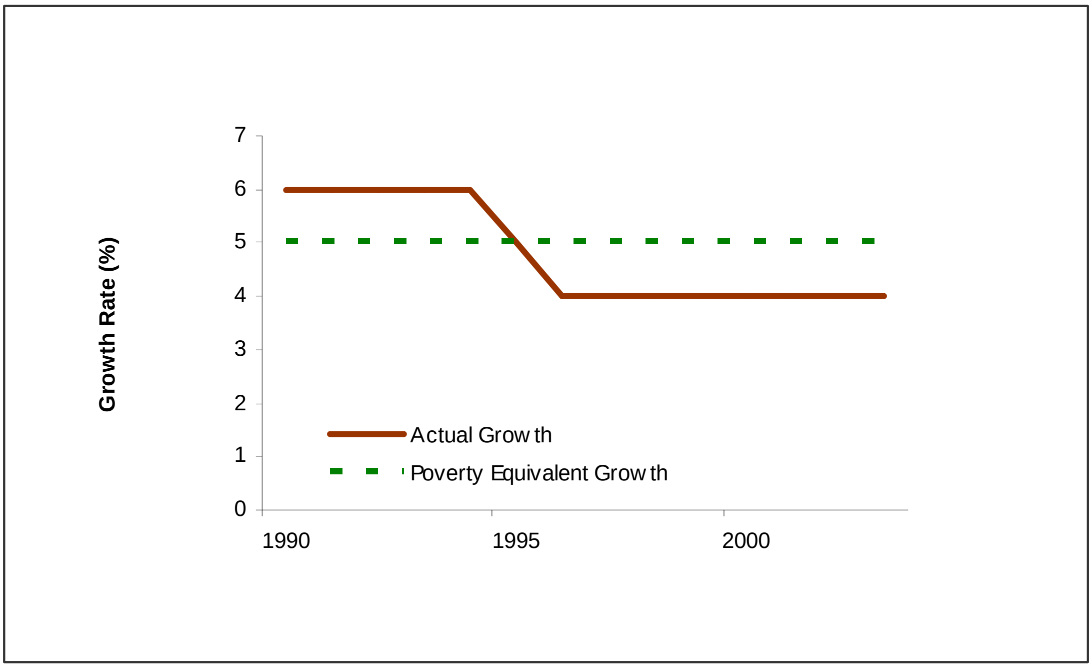
Source: Bourguignon (2004)

Figure 2



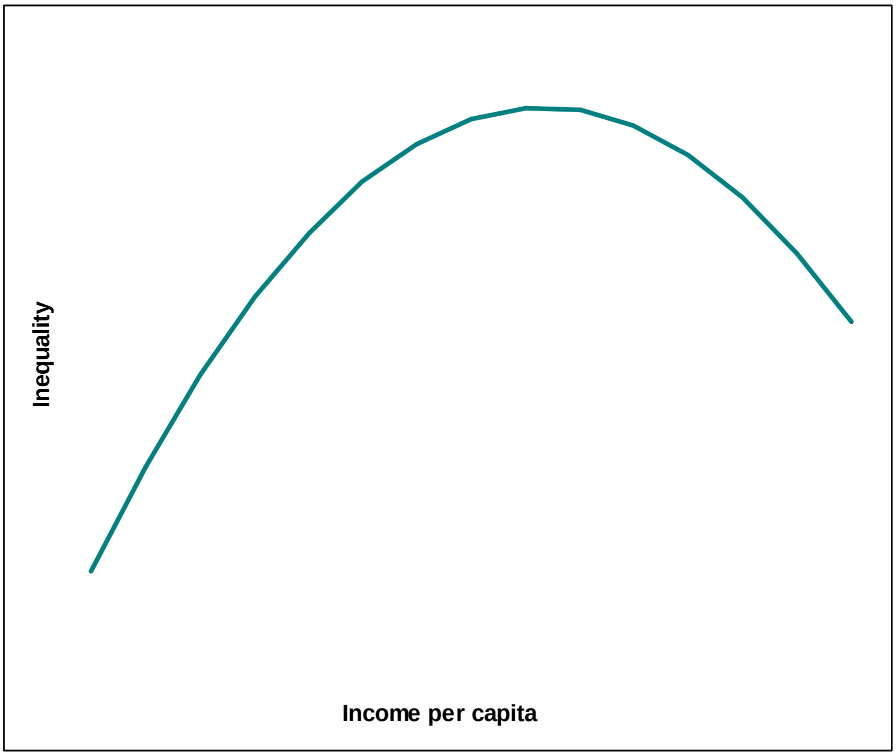
Source: Kakwani, Khandker and Son (2004).

Figure 3. Actual vs. Poverty Equivalent Growth



Source: Author.

Figure 4. The Inverted-U Pattern of Inequality



Source: Author.

Table 1. Inclusive Growth and Absolute Income Gaps

Growth Scenario	Income of Poorest 40%	Income of Richest 10%	Absolute Income Gap
Starting Point (Year 0)	**£100**	**£2000**	**£1900**
5% growth for all (Year 1)	**£105**	**£2100**	**£1995**
10% growth for all (Year 1)	**£110**	**£2200**	**£2090**
10% growth: Poorest 40% 5% growth: Richest 10% (Year 1)	**£110**	**£2100**	**£1990**

Source: Author